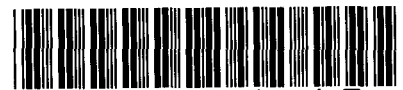


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BEFORE THE ARIZONA CORPORATION COMMISSION

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Commissioner

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Commissioner

IN THE MATTER OF THE GENERIC
PROCEEDINGS CONCERNING
ELECTRIC RESTRUCTURING

DOCKET NO. E-00000A-02-0051

IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY'S REQUEST FOR
VARIANCE OF CERTAIN
REQUIREMENTS OF A.A.C. 4-14-2-1606

DOCKET NO. E-01345A-01-0822

IN THE MATTER OF THE GENERIC
PROCEEDINGS CONCERNING THE
ARIZONA INDEPENDENT
SCHEDULING ADMINISTRATOR

DOCKET NO. E-00000A-01-0630

IN THE MATTER OF TUCSON
ELECTRIC COMPANY'S APPLICATION
FOR A VARIANCE OF CERTAIN
ELECTRIC POWER COMPETITION
RULES COMPLIANCE DATESE-00000A-02-0051
E-01345A-01-0822
E-00000A-01-0630
E-01933A-02-0069
~~E-01933A-02-0471~~THE ARIZONA COMPETITIVE POWER ALLIANCE'S NOTICE OF
SUPPLEMENTAL DISCLOSUREINTRODUCTION

The Arizona Competitive Power Alliance (the "Alliance")¹ hereby files this Notice of Supplemental Disclosure in the above-referenced dockets. In her Recommended Opinion and Order, ALJ Farmer correctly concludes that the transfer of Pinnacle West Energy Corporation ("PWEC") assets to Arizona Public Service ("APS") is beyond the scope of Track A.² However,

¹ The members of the Alliance are: AES New Energy, Allegheny Energy Supply, Calpine, Duke Energy North America, LLC, Gila Bend Power Partners LLC, Mirant Americas, Inc., Panda Energy International, Inc./TECO Power Services Corporation, PG&E National Energy Group, PPL Montana, LLC, Reliant Energy, Sempra Energy Resources and Southwestern Power Group II, LLC. This pleading expresses the consensus position of the Alliance. Each individual member of the Alliance reserves the right to assert a different position.

² Recommended Opinion and Order – Track A at 25

1 PWEC and APS have persisted in trying to insert that issue into Track A. Such persistence, in
2 turn, has occasioned this filing. As more fully described below, these documents are submitted to
3 provide the Commission with a variety of publicly available documents which clearly contradict
4 certain of APS's representations regarding its unregulated Affiliate's generating facilities,
5 particularly APS's most recent representation in its Exceptions to the Recommended Opinion and
6 Order which asserts that the PWEC generation assets are "Reliability Assets" built principally to
7 serve APS's customers, as well as APS's related inference that these assets therefore should be
8 includable in rate base should the proposed divestiture not occur. Specifically, APS's Exceptions
9 rely upon a letter from William Post, Chairman of Pinnacle West Capital Corporation ("PWCC"),
10 to support APS's assertion that the Redhawk and West Phoenix facilities were constructed to
11 meet APS's reliability needs. Mr. Post was not a witness for APS in the Track A Hearing and his
12 letter was docketed after the close of the hearing, making his assertion beyond challenge through
13 cross-examination. APS has recently made similar assertions in other forums before the
14 Commission, e.g., the Biennial Transmission Assessment and Track B workshops³.

15 The attached documents, however, which include statements by PWCC as to its intention
16 in constructing these unregulated facilities, as well as reports by rating agencies based on
17 information supplied by PWCC, contradict APS's recent assertions and unequivocally
18 demonstrate that development of the Redhawk and West Phoenix facilities was undertaken by
19 PWCC as part of a strategy to participate in the wholesale merchant energy market, and not
20 specifically to satisfy APS's customer needs. The Commission should therefore reject APS's
21 *post hoc* efforts to recast its unregulated Affiliate's generation assets as having been solely
22 constructed to reliably serve APS's customers.

23
24 ³ APS continued this theme in its August 20, 2002 letter from Donald Robinson to Commissioner Jim Irvin in which
25 APS responds to a request to list APS generation plants. Mr. Robinson's letter includes as "Exhibit 1 - APS
26 generation plants, their locations, ages, fuel sources, maximum output and primary uses." Listed among the plants on
Exhibit 1 are the Redhawk and West Phoenix plants. While a column in the Exhibit notes the ownership of facilities
as lying in PWEC, by listing the units at all, the letter continues APS's attempts to blur the corporate distinction
between the two entities when it comes to the PWEC merchant generation facilities.

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1 this application?

2 A. (Ed Fox PWCC Vice President for Communications,
3 Environment and Safety) We are requesting that the Siting
4 Committee grant a Certificate of Environmental Compatibility for
the construction of four 530 MW combined cycle natural gas fired
generating units in western Maricopa County.

5 I want to provide a quick overview of the project. These facilities
6 will be merchant plants. They truly will be in the competitive
7 market. They will sell energy or not depending on their ability to
8 sell at a price that can get into the market, and as such, the risk for
the generation in selling that generation will be with Pinnacle West
Energy.

9 It is intended to provide the need of the expanding, not just the
10 Phoenix market, but also the general market in the southwest
11 which continues to grow. And we've heard a lot of testimony on
the need for new generation in both Maricopa County in Arizona
and the southwest, and this site was selected in part to meet that
need.⁸

12 Likewise, PWCC clearly stated its intent to develop the West Phoenix facility as a
13 merchant plant in the proceedings for its CEC before the Siting Committee, where the following
14 exchange occurred:

15 THE WITNESS: Thank you, Sir.

16 Let me start over. Pinnacle West Energy requests that the
17 Commission grant it a Certificate of Environmental Compatibility
18 for the construction of two combined cycle natural gas-fired
19 generating units here in Phoenix, Arizona. Unit 1 that we call unit
20 combined cycle four, CC4, will be 120 megawatts, and CC5,
21 which will be 530 megawatts.

22 Q. (BY MR. WHEELER) Will these be dedicated units? And by
23 that I mean, will the output be sold to one particular customer in
24 the contract?

25 A. No, they won't. As I explained earlier, as the utility industry
26 moves in the competitive marketplace, part of that competitive
marketplace is in the generation of electricity itself. And these
facilities will be merchant plants that will be selling into the
wholesale market. In this regard, and being part, selling into the
wholesale market, the competitive market, being an unregulated

⁸ Pinnacle West Energy, L-00000J-99-0095, December 9, 1999, CEC Transcript at 177-78, relevant excerpts attached hereto as Exhibit Alliance-1.

1 subsidiary of Pinnacle West Capital Corporation, the ratepayers
2 will not be at risk for this venture and for this expansion.⁹

3 PWCC's intent to operate the PWEC generation as merchant facilities in the wholesale market
4 was further expressed in articles noting the Commission's granting of CECs to PWEC's Redhawk
5 and West Phoenix facilities. The articles noted that PWCC had stated that the certificates
6 "significantly advance development of the projects, which are to sell into the deregulated power
7 markets of the western U.S., including California, Arizona and New Mexico."¹⁰

8 Finally, in March 2000, PWCC further clarified that the Redhawk unit was intended as a
9 merchant facility when it announced that it had entered into a joint development agreement with
10 Reliant Energy Power Generation, Inc. under which Reliant and PWCC would share
11 "construction and operation of three merchant power plants in Arizona and Nevada"¹¹ including
12 the planned Redhawk facility. In describing the Joint Development Agreement, Mr. Post stated
13 that the Nevada projects and the Redhawk facility "will allow us to meet increasing demands for
14 power across the Southwest and at the same time promote a competitive market that will
15 ultimately benefit consumers. . . . We intend to create a robust generation business that helps
16 ensure a reliable supply of electricity in the West."¹² The same article quoted Bill Stewart,
17 PWEC's President, as stating:

18 We intend to offer competitively priced electricity in growing
19 Southwest markets by producing low-cost energy that is accessible
20 to key transmission hubs . . . These projects are part of our overall
21 growth strategy that will keep us near the top of western power
22 producers. This partnership is a demonstration of our oft-stated
23 goal of being a broad-based supplier for power markets in the
24 West, where we have extensive business experience and market
25 knowledge.¹³

23 ⁹ Pinnacle West Energy, L-00000J-99-92, November 19, 1999, CEC Transcript at 16-17, relevant excerpts attached
24 hereto as Exhibit Alliance-2.

24 ¹⁰ Utility Environment Report, February 25, 2000, attached as Exhibit Alliance-3; Power Markets Week, February
25 28, 2000, attached as Exhibit Alliance-4.

25 ¹¹ PR Newswire, March 13, 2000, attached as Exhibit Alliance-5.

26 ¹² Megawatt Daily, March 14, 2000, attached as Exhibit Alliance-6.

¹³ Id.

1 PWCC likewise acknowledged that West Phoenix was intended to be a merchant plant
2 when it originally announced its West Phoenix project in early 1999, before the settlement
3 agreement with APS was signed. According to the May 3, 1999, issue of Power Markets Week
4 "once the units are in operation, PWG plans to sell the power into the wholesale market" and
5 quotes a Pinnacle West spokesperson as stating:

6 The buyer could be Arizona Public Service or Salt River Project,
7 or any other provider active in the market.¹⁴

8 The article also noted that the new generation affiliate would be active throughout the "Western
9 States [sic] Coordinating Counsel, focusing on projects in Arizona, California, Colorado, Nevada,
10 Utah and the Pacific Northwest."¹⁵

11 Likewise, in describing the planned development of the Redhawk facility, a September 29,
12 1999, article in Business Wire stated that "the plant will compete in deregulated energy markets
13 of Arizona, California and other western states and will be operated by Pinnacle West Energy, the
14 new Pinnacle West generating entity that was formed earlier this week." The article went on to
15 quote PWEC's President Bill Stewart as saying:

16 We intend to be a vigorous player in these competitive generation
17 markets . . . We have a strong record of low-cost, efficient plant
18 operation. We can best serve the public and our shareholders by
pursuing these developing markets, particularly in Arizona and the
Southwest.¹⁶

19 The Exhibits referenced above make it clear that APS's "reliability-based" investment
20 position is a recent assertion designed to support its revised regulatory strategy. So much is clear
21 from the attached stock rating agency reports that describe individual meetings with PWCC's
22 management,¹⁷ and further highlight PWCC's "regional strategy" to become a "major" player in
23

24 ¹⁴ Power Markets Week Article attached as Exhibit Alliance-7.

25 ¹⁵ Id. See also April 30, 1999, Global Power Report stating that Pinnacle West planned to build plants in each of the
WSCC states, attached as Exhibit Alliance-8.

26 ¹⁶ September 29, 1999, Business Wire attached as Exhibit Alliance-9.

¹⁷ "Management is shareholder-oriented and has a focused strategy in a focused market." Merrill Lynch, January 19,
2001. Pinnacle West: Deregulated Generation in the West, attached as Exhibit Alliance-10.

1 the Southwestern regional wholesale generation market:

2 Pinnacle is focused on becoming a major energy provider to the
3 western markets and plans to leverage its knowledge of the region
4 to maximize market opportunities.¹⁸

5 PNW {Pinnacle West Capital Corp.} is positioning itself as a
6 major player in the Southwest Region with nearly 3,300 MW of
7 generation capacity under construction. The company will
8 maintain a competitive advantage over other utilities in the region
9 with the additional capacity combined with transmission access to
10 the entire Western US.¹⁹

11 Strategically, management is focused on completing a spin down
12 of the utility generating assets – roughly 4,000 MW of coal, gas/oil
13 and nuclear capacity – to an unregulated unit. The goal is to get
14 the deal done before changes at the ACC, the state regulators, in
15 2002. With decent margins on native load and leverage to the
16 West Coast markets a separation from the regulatory overhang
17 should bring better margins.²⁰

18 Finally, the reports also reveal that in April 2001, Pinnacle West was advising financial
19 houses that it “expects to finance its [generation] expenditures through internally generated cash,
20 construction revolvers, note issuances by the parent company and Pinnacle West Energy, and tax-
21 exempt debt transferred from the utility to Pinnacle West Energy.”²¹ Hence, these statements
22 belie any assertion by APS as to the need for permanent financing for its affiliate or its assertion
23 regarding the harmful financial consequences to its affiliates, PWCC and PWEC, neither of which
24 are parties to these proceedings, should the divestiture not commence and its affiliate’s proposed
25 PPA be rejected.²² Indeed, the financial reports show quite clearly that the financial

26 ¹⁸ Credit Suisse First Boston, April 16, 2001. Pinnacle West Corporation, attached as Exhibit Alliance-11.

¹⁹ UBS Warburg, April 12, 2001. Research Note, attached as Exhibit Alliance-12.

²⁰ Morgan Stanley Dean Witter, April 16, 2001. On The High Road to California attached as Exhibit Alliance-13.

²¹ Exhibit Alliance-11 at 3

²² The importance of the proposed affiliate PPA to the PWCC financial strategy is reflected by the October 22, 2001, Lehman Brothers report noting that the proposed PPA appears favorable for PW Energy and PWMT as it would provide price stability and marketing opportunities to the companies existing MWs and MWs under construction. Specifically, the PPA pricing would appear to be an attractive price for new gas fired generation that could produce healthy ROE’s if true equity invested is more in line with 25%-35% of capital.” Exhibit Alliance-14 at 3. [Lehman Brothers report] The October 22, 2001, Lehman Brothers report was issued concurrent with APS’s October 2001 variance request. [The request was made on 10/18/01.] Similarly, an April 17, 2001, Merrill Lynch report indicates

1 consequences facing PWCC are the result of a business and regulatory strategy gone wrong rather
2 than reliance on the Commission.

3 **CONCLUSION AND REQUESTED RELIEF**

4 At no time has APS ever produced a single contemporaneous document in support of its
5 post-hearing assertions that Redhawk and West Phoenix were built principally to serve APS's
6 Standard Offer customers. Indeed, neither Mr. Post's recent letter, which was filed after the
7 hearing concluded, nor APS's reliance on that letter are in any way supported by any
8 contemporaneous evidence adduced during the Track "A" hearing. The Alliance requests,
9 therefore, that the Commission either accept the attached Supplemental Information, which does
10 provide contemporaneous evidence of PWCC's intent at the time it developed its merchant
11 generation, or strike the Post²³ letter entirely from this docket and prohibit APS or any party from
12 relying on the representations contained therein and repeated by APS.

13 ARIZONA COMPETITIVE POWER ALLIANCE

14
15 By: 

16 Greg Patterson

17
18 1332996.1/73262.005
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23

24 that Pinnacle West told Merrill Lynch that it intended to "take a new proposal to the AZ regulators around the middle
25 of this year. . . . By doing this now, PNW clearly hopes to pre-empt upcoming (2002) political and regulatory
26 changes and to reduce the likelihood of future backlash against current deregulation plans." Exhibit Alliance-15 at 2.
²³ And any other letter or pleading making similar unfounded assertions regarding the intent of PWCC in
constructing Redhawk or West Phoenix.

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EXHIBIT 1

1 BEFORE THE POWER PLANT AND TRANSMISSION
2 LINE SITING COMMITTEE
3

4 IN THE MATTER OF THE APPLICATION OF)
5 PINNACLE WEST ENERGY CORPORATION OR)
6 THEIR ASSIGNEE(S), IN CONFORMANCE)
7 WITH THE REQUIREMENTS OF ARIZONA)
8 REVISED STATUTES 40-360.03 AND)
9 40-360.06, FOR A CERTIFICATE OF)
10 ENVIRONMENTAL COMPATIBILITY)
11 AUTHORIZING THE CONSTRUCTION OF TWO)
12 NATURAL GAS-FIRED COMBINED CYCLE) CASE NO. 95
13 GENERATING FACILITIES AND ASSOCIATED)
14 INTRAPLANT TRANSMISSION LINES,) DOCKET NO.
15 SWITCHYARD, AND RELATED FACILITIES) L-00000J-99-0095
16 IN MARICOPA COUNTY, ARIZONA LOCATED)
17 TWO MILES SOUTHEAST OF THE)
18 INTERSECTION OF ELLIOT ROAD AND)
19 WINTERSBURG ROAD IN SECTIONS 14, 22,)
20 AND 23, TOWNSHIP 1 SOUTH, RANGE 6)
21 WEST, GILA AND SALT RIVER BASE AND)
22 MERIDIAN.)
23

24 At: Phoenix, Arizona

25 Date: December 9, 1999

Filed: DEC 23 1999

REPORTER'S TRANSCRIPT OF PROCEEDINGS

ARIZONA REPORTING SERVICE, INC.

Court Reporting

Suite Three

2627 North Third Street

Phoenix, Arizona 85004-1103

By: CECELIA BROOKMAN, RPR

Prepared for:

SITING COMMITTEE

ORIGINAL

1 generation from their wires. Our first step in doing
2 that was to create Pinnacle West Energy, which today
3 is a separate corporation. It has staff, it is the
4 applicant in today's hearing in terms of building new
5 generation, and within the next two years, as per the
6 rules adopted by the Commission, the APS generation
7 will be moved over into Pinnacle West Energy, so
8 Pinnacle West Energy will be the generation arm for
9 Pinnacle West Capital Corporation.

10 Pinnacle West Energy is today staffed by
11 several employees, and they use contractors to fill
12 out the need for that. And the current structure of
13 Pinnacle West Energy is set up in a way so that its
14 financing is also set up to be through Pinnacle West
15 Capital for the parent corporation.

16 Q. What specific authority is being requested
17 from the Siting Committee in this application?

18 A. We are requesting that the Siting Committee
19 grant a Certificate of Environmental Compatibility for
20 the construction of four 530 megawatt combined cycle
21 natural gas-fired generating units in western Maricopa
22 County.

23 I want to provide a quick overview of the
24 project. These facilities will be merchant plants.
25 They truly will be in the competitive market. They

1 will sell energy or not depending on their ability to
2 sell at a price that can get into the market, and as
3 such, the risk for that generation in selling that
4 generation will be with Pinnacle West Energy.

5 It is intended to provide the need of the
6 expanding, not just the Phoenix market, but also the
7 general market in the southwest which continues to
8 grow. And we've heard a lot of testimony on the need
9 for new generation in both Maricopa County in Arizona
10 and in the southwest, and this site was selected in
11 part to meet that need.

12 Q. At the risk of being somewhat redundant,
13 could you briefly describe where the plant will be
14 located?

15 A. It's about 50 miles west of Phoenix near
16 Wintersburg. It is just south of the Palo Verde
17 nuclear generating property. And it's really about a
18 half mile south of the station itself, but it's really
19 just across the road by about a half mile from the
20 Palo Verde property.

21 This map that's on the board and the board
22 over there on the side of the screen actually provides
23 a much better overview of the site. You'll see the
24 Palo Verde power plant right in the middle of the
25 screen. The blue mark in the middle of the Palo Verde

EXHIBIT 2

11-19-1999

Page 1

1 BEFORE THE POWER PLANT AND TRANSMISSION
2 LINE SITING COMMITTEE
3
4 IN THE MATTER OF THE APPLICATION OF)
5 PINNACLE WEST ENERGY CORPORATION OR)
6 THEIR ASSIGNEE(S), IN CONFORMANCE WITH) CASE NO. 92
7 THE REQUIREMENTS OF ARIZONA REVISED)
8 STATUTES 40-360.03 AND 40-360.06, FOR)
9 A CERTIFICATE OF ENVIRONMENTAL)
10 COMPATIBILITY AUTHORIZING THE) DOCKET NO.
11 CONSTRUCTION OF TWO NATURAL GAS-FIRED)
12 COMBINED CYCLE GENERATING FACILITIES) L-00000J-99-
13 AND ASSOCIATED INTRAPLANT TRANSMISSION) 0092
14 LINES AND RELATED FACILITIES IN)
15 MARICOPA COUNTY, ARIZONA, AND WITHIN)
16 THE LIMITS OF THE CITY OF PHOENIX AT)
17 THE NORTHWEST CORNER OF 43RD AVENUE)
18 AND HADLEY STREET.)
19)
20

At: Phoenix, Arizona

Date: November 19, 1999

Filed:

REPORTER'S TRANSCRIPT OF PROCEEDINGS

ARIZONA REPORTING SERVICE, INC.
Court Reporting
Suite Three
2627 North Third Street
Phoenix, Arizona 85004-1103
By: CECELIA BROOKMAN, RPR

Prepared for:

11-19-1999

Page 14

1 Pinnacle West Energy was formed within the last two
2 months, which it is and will be the generation company
3 for Pinnacle West Capital Corporation. And we also
4 have a new company called APS Energy Services, which
5 is the retail arm that will be out marketing and
6 selling energy in the marketplace.

7 Q. Was Pinnacle West Energy formed in part to
8 respond to regulations adopted by the Arizona
9 Corporation Commission?

10 A. Yes, it was. As I mentioned, as we move into
11 this new world of deregulated utility industry, the
12 Commission, the Arizona Corporation Commission has
13 been considering and now adopted a set of rules that
14 will govern this new competitive world. Within those
15 rules there are provisions that require incumbent
16 utilities to divest their generating assets, and it
17 provided some flexibility on how to do that.

18 Pinnacle West Capital Corporation's decision
19 on how to move those generating assets from APS was
20 done in the following way, to create Pinnacle West
21 Energy, and all of those generating assets will be
22 moved from APS into Pinnacle West Energy within the
23 next two years. In that context, Pinnacle West Energy
24 was formed, and we're looking for other opportunities
25 in the competitive marketplace, so it won't be just

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1 CHMN. PIERSON: May we have just a break here
2 to note that Sandie Smith is now with us, has just
3 joined us, so that gives us seven Committee members.

4 And perhaps, Mr. Wheeler, it will be a good
5 idea if I noted for the record that there were no
6 requests, applications for intervention and no limited
7 appearance statements filed, so far as I know.

8 MR. WHEELER: And that's consistent with our
9 understanding of the records. We've been checking
10 Docket Control on a regular basis and we are not aware
11 of any such pleadings.

12 CHMN. PIERSON: Thank you.

13 Pardon me, Mr. Fox, go ahead.

14 THE WITNESS: Thank you, sir.

15 Let me start over. Pinnacle West Energy
16 requests that the Committee grant it a Certificate of
17 Environmental Compatibility for the construction of
18 two combined cycle natural gas-fired generating units
19 here in Phoenix, Arizona. Unit 1 that we call unit
20 combined cycle four, CC4, will be 120 megawatts, and
21 CC5, which will be 530 megawatts.

22 Q. (BY MR. WHEELER) Will these be dedicated
23 units? And by that I mean, will the output be sold to
24 one particular customer in the contract?

25 A. No, they won't. As I explained earlier, as

Page 15

1 moving the existing assets, but Pinnacle West Energy
2 will also be responsible for all new assets,
3 generating assets as we go forward into the future.

4 Q. How will Pinnacle West Energy be staffed and
5 financed?

6 A. Pinnacle West Energy is made up of former APS
7 employees who have moved over into Pinnacle West
8 Energy and former Pinnacle West Capital Corporation
9 employees who have moved over into Pinnacle West
10 Energy. The organization is brand-new, and the
11 company is brand-new, and the financing for this new
12 company Pinnacle West Energy and its ventures
13 including the current expansion, is indeed being
14 backed by Pinnacle West Capital Corporation, the
15 parent company, and the financial aspects, there will
16 be financial infusion into Pinnacle West Energy by the
17 parent company.

18 Q. Let's turn now to the subject of the
19 application that's before the Siting Committee. What
20 specifically is Pinnacle West Energy Company
21 requesting from this Committee?

22 A. Pinnacle West Energy requests that the
23 Committee grant it a Certificate for Environmental
24 Compatibility for the construction of two combined
25 cycle natural gas generating units.

Page 17

1 the utility industry moves in the competitive
2 marketplace, part of that competitive marketplace is
3 in the generation of electricity itself. And these
4 facilities will be merchant plants that will be
5 selling into the wholesale market.

6 In this regard, and being part, selling into
7 the wholesale market, the competitive market, being an
8 unregulated subsidiary of Pinnacle West Capital
9 Corporation, the ratepayers will not be at risk for
10 this venture and for this expansion.

11 While we will be selling into the
12 marketplace, we do expect that much of the energy will
13 be sold here in Phoenix. We have a 6 percent load
14 growth here in the urban area, a significant demand
15 for import of energy during peak times during the
16 summer, and we do expect much of the generation will
17 be sold to meet the expanding needs of the Phoenix
18 metropolitan area.

19 CHMN. PIERSON: Mr. Wheeler, excuse me. Do
20 you plan at any point, with any witness, to discuss
21 where transmission fits into the deregulation scheme?

22 MR. WHEELER: Not precisely in that context,
23 although I have gotten a word that at least some of
24 the Siting Committee members may have questions in
25 that regard, and probably Mr. Fox is the best person

EXHIBIT 3

PINNACLE WEST GIVEN ENVIRONMENTAL OKAY FOR 2,725 MW OF GENERATION IN ARIZONA

318 words

25 February 2000

Utility Environment Report

5

English

(Copyright 2000 McGraw-Hill, Inc.)

Pinnacle West Energy has won certificates of environmental compatibility for two merchant power plants under development in Arizona.

The certificates, granted by an Arizona Corporation Commission committee, significantly advance development of the projects, which are to sell into the deregulated power markets of the western U.S., including California, Arizona and New Mexico, said the company, a unit of Phoenix-based Pinnacle West Capital Corp.

Without the certificates, Pinnacle West could not proceed with the permitting process, which includes going to other agencies for an air quality permit and for a land zoning change for one of the plant sites. The company is now confident it can obtain both the air permits and zoning change in the near future.

The projects--one of 2,080 MW capacity and one of 645 MW capacity, for a total of 2,725 MW--are both combined-cycle, gas-fired plants.

Pinnacle West still must complete a detailed transmission study for three of the four 520-MW units at the larger of the two projects, the \$1-billion Red Hawk development. The study will make sure the additional capacity of the plants does not interfere with the existing transmission capabilities of the area, which is also the site of the Palo Verde Nuclear Generating Station.

Pinnacle West plans to bring Red Hawk on-line in four phases. The first unit is scheduled to go into operation in 2003, and all 2,080 MW is to be in service by 2007. Work on the first unit is expected to begin in late 2000.

The smaller project is a joint venture with independent power producer Calpine Corp. of San Jose, Calif., and will be located next to the existing 591-MW West Phoenix Power station, owned and operated by Arizona Public Service, also a unit of Pinnacle West Capital.

EXHIBIT 4

ACC ISSUES PERMITS FOR 2,725 MW

174 words

28 February 2000

Power Markets Week

16

English

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Arizona regulators have concluded that two merchant plants Pinnacle West Energy is planning to build in the state pass environmental muster. The company, a unit of Phoenix-based Pinnacle West, wants to sell the generation into deregulated retail markets in the West.

The gas-fired projects will have a combined capacity of 2,725 MW must still obtain several additional permits and company officials said they are confident they will soon be secured. The company also must assure regulators that it will be able to move power from the larger of the two projects. The company is required to complete an assessment to determine whether the additional capacity would overload the existing transmission system, which also handles the Palo Verde Nuclear Generating Station.

Pinnacle plans to bring the largest project, the 2,080-MW Red Hawk facility, into operation in stages with the first power on-line in 2003 and the last by 2007. Calpine Corp. will work with Pinnacle as a partner in the project.

EXHIBIT 5

Reliant Energy Power Generation, Pinnacle West Energy Sign Agreement Covering Construction, Operation of New Power Plants in Arizona, Nevada

593 words

13 March 2000

17:15

PR Newswire

English

(Copyright (c) 2000, PR Newswire)

HOUSTON, March 13 /PRNewswire/ -- Reliant Energy Power Generation, Inc. (REPGI), a wholly owned subsidiary of Reliant Energy (NYSE: REI), announced today that it has signed a Joint Development Agreement (JDA) with Pinnacle West Energy, Inc., Phoenix, covering construction and operation of three new merchant power plants in Arizona and Nevada.

The JDA requires the parties to work together on an exclusive basis for 120 days toward the signing of a definitive joint-venture agreement on plant construction and operation.

Plans call for REPGI and Pinnacle West Energy to be equal partners in the JDA. The joint venture would own and operate two plants in Nevada and a third plant in western Arizona. With a nominal total capacity of as much as 2,900 megawatts, the plants would provide electricity to the power grid serving the western states.

"The plants would add a major dimension of strength to our existing portfolio in California, Arizona, and Nevada, including our five merchant plants in California, another soon to be fully operational near Las Vegas, and a plant under construction near Casa Grande, Arizona," said Joe Bob Perkins, president and chief operating officer of the Reliant Energy Wholesale Group.

"The JDA complements our power origination and asset-backed energy trading and marketing strategy, and the plants would further complement and aid in meeting the growing power needs of customers in the Southwest," Perkins said.

REPGI would contribute two new natural gas-fired plants in Nevada to the JDA. One plant would have a capacity of as much as 1,400 megawatts and the second plant 500 megawatts.

Pinnacle West Energy plans to contribute its 1,060-megawatt, gas-fired Red Hawk power project to the JDA. Construction is expected to start in the third quarter, with commercial operation slated in the summer, 2002.

Pinnacle West Capital Corporation is a Phoenix-based company with consolidated assets of approximately \$7 billion. Through its subsidiaries, the company generates, sells, and delivers electricity and sells electricity and energy-related products and services to retail and wholesale customers in the western United States. It also develops residential, commercial, and industrial real estate projects.

Reliant Energy, based in Houston, Texas, is an international energy services and energy delivery company with \$15.3 billion in annual revenue and assets totaling more than \$26 billion.

The company has a wholesale energy trading and marketing business that ranks among the top five in the U.S. in combined electricity and natural gas volumes and has a presence in most of the major power regions of the U.S. It also has power generation and wholesale trading and marketing operations in western Europe. The company has more than 22,000 megawatts of power generation in operation in the U.S. and western Europe, and has announced acquisitions and development projects that will add another 9,750 megawatts, including the planned joint venture with Pinnacle West Energy.

Reliant Energy also has marketing and distribution operations serving nearly four million electricity and natural gas customers in the U.S., significant interests in power distribution operations serving nearly 10 million customers in Latin America, and a telecommunications business in the Houston area.

For more information about Reliant Energy, visit the company's website at www.reliantenergy.com.

/CONTACT: media, Richard Wheatley of Reliant Energy, 713-207-5881; or Craig Nesbit of Pinnacle West Energy, Inc., 602-250-2896; or investors, Randy Burkhalter of Reliant Energy, 713-207-3115/ 17:00 EST

EXHIBIT 6

Reliant, Pinnacle West join on projects

324 words

14 March 2000

Megawatt Daily

Volume 5; Issue 50

English

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Two power developers announced yesterday that they would jointly develop more than 2,500 MW in Arizona and Nevada.

Reliant Energy and Pinnacle West Energy agreed to share the costs and output of three previously announced projects to expand each company's generation base.

The deal includes Units 1 and 2 of the Red Hawk Power Plant in Arizona and two Nevada projects that will total 1,500 MW when completed. The two Nevada projects, one in the northern portion of the state and one near Las Vegas, give Pinnacle West its first merchant presence outside Arizona.

"These projects will allow us to meet increasing demands for power across the Southwest and at the same time promote a competitive market that will ultimately benefit consumers," Pinnacle West Capital President Bill Post said. "We intend to create a robust generation business that helps ensure a reliable supply of electricity in the West."

The companies will own half of each project, so in exchange for a 50% share of the first two Red Hawk units, Pinnacle West will get a 50% share in the three units at the two Nevada sites. Red Hawk is expected to begin commercial operation in summer 2002 and Pinnacle will develop two additional units at that site independently of Reliant.

The deal fits with Pinnacle West Energy's strategy of expanding its energy holdings in the Southwest, a Pinnacle West Energy official said.

"We intend to offer competitively priced electricity in growing Southwest markets by producing low-cost energy that is accessible to key transmission hubs," Pinnacle West Energy President Bill Stewart said. "These projects are part of our overall growth strategy that will keep us near the top of western power producers. This partnership is a demonstration of our oft-stated goal of being a broad-based supplier for power markets in the West, where we have extensive business experience and market knowledge." MP

EXHIBIT 7

PINNACLE WEST ESTABLISHES MERCHANT ARM; PLANS 500-MW PLANT WITH CALPINE

269 words

3 May 1999

Power Markets Week

7

English

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Phoenix-based Pinnacle West Capital Corp., holding company of Arizona Public Service, has created a subsidiary to develop and acquire merchant power capacity. The new company, Pinnacle West Generation, will be active throughout the Western States Coordinating Council, focusing on projects in Arizona, California, Colorado, Nevada, Utah and the Pacific Northwest.

The company last week said it has reached an agreement with independent power producer Calpine Corp., San Jose, Calif., to build, own and operate a 500-MW, gas-fired combined cycle plant in Phoenix. The proposed \$220-million facility will be located next to APS's 591-MW West Phoenix Power station and is scheduled to begin operating in late 2001.

The two partners also may expand the capacity of an existing 106-MW unit at the site to 130 MW, but said details of the project are not final. "We'll either do it with Calpine or by ourselves," a PWG official said. An additional repowering project is tentatively planned and would involve a 116-MW unit at the same site. The 116-MW unit began operating in 1948, and two other units came on-line in the early to mid-1970s.

Once the units are in operation, PWG plans to sell the power into the wholesale market. "The buyer could be Arizona Public Service or Salt River Project, or any other provider active in the market," the official said.

Retail competition in Arizona is scheduled to begin Jan. 1, 2001, but the state's restructuring law does not require utilities to divest their generation.

EXHIBIT 8

CALPINE CORP. AND NEW UNREGULATED UNIT OF ARIZ. UTILITY TO BUILD 500-MW PLANT

303 words

30 April 1999

Global Power Report

15

English

(c) 1999 McGraw-Hill, Inc.

Calpine Corp. and Pinnacle West Generation have launched development of a 500-MW, gas-fired combined-cycle plant near Phoenix.

Pinnacle West Generation is the newly formed unregulated subsidiary of Pinnacle West Capital, the holding company of Arizona Public Service.

PWG plans to build plants in all the states of the Western Systems Coordinating Council, specifically "Arizona, Nevada, Utah, California, Colorado and up into the Northwest," a PWG executive said.

Even though the agreement with Calpine is not exclusive, PWG and Calpine are also exploring a smaller project at the Phoenix site, the repowering of a 106-MW plant to a 130-MW, gas-fired, combined-cycle station. Details of the repowering project are not yet set. "We'll either do it with Calpine, or we'll do it ourselves. Right now, we are not looking for another partner," the PWG executive said.

Another repowering project is tentatively planned and would involve a 116-MW plant at the West Phoenix site.

The proposed \$220-million Phoenix facility will be located on the site of Arizona Public Service's 591-MW, gas- and oil-fired West Phoenix station. Construction is scheduled to begin in mid-2000 with commercial operation by late 2001.

The partners plan to sell all the electrical output from plants they develop into the open market. "The buyer could be Arizona Public Service or Salt River Project or any other provider active in the market," the PWG executive said.

The Arizona Corporation Commission recently approved a plan to open the state to retail competition by Jan. 1, 2001, but the state's utilities are not required to sell their generation assets.

The restructuring prompted Arizona Public Service to create PWG to undertake the Phoenix plant.

EXHIBIT 9

Pinnacle West to Build Large Power Project in Western Maricopa County

635 words

29 September 1999

17:48

Business Wire

English

(c) 1999 Business Wire

PHOENIX--(BUSINESS WIRE)--Sept. 29, 1999--Pinnacle West Capital Corporation (NYSE:PNW) plans to develop a natural gas-fired electric generating station of up to 2,120 megawatts approximately 50 miles west of Phoenix near the Palo Verde Nuclear Generating Station switchyard, Generation President Bill Stewart announced today.

The plant will compete in deregulated energy markets of Arizona, California and other western states and will be operated by Pinnacle West Energy, the new Pinnacle West generating entity that was formed earlier this week.

"We intend to be a vigorous player in these competitive generation markets," Stewart said. "We have a strong record of low-cost, efficient plant operation. We can best serve the public and our shareholders by pursuing these developing markets, particularly in Arizona and the Southwest."

The state-of-the-art, four-unit combined cycle plant will be built in phases, coming on line in 530-megawatt increments beginning in 2003, with the final unit anticipated to be operational in 2007. Land has been acquired and environmental permit applications are being prepared and submitted for the project. Construction contracts will be on a fixed-price basis and total approximately \$1 billion. Work on the first unit is expected to begin in late 2000.

As part of the project, Pinnacle West has begun seeking the input of residents from nearby neighborhoods and communities who will be asked to provide advice during planning, construction and operation of the new facility.

The plant's location was selected because the Palo Verde switchyard is a major transmission hub and provides access to energy markets in Arizona, California and across the Southwest, a region that has seen significant growth. Since 1994, electricity usage in Arizona has increased more than 4.5 percent a year.

In a separate project announced in April, Pinnacle West and Calpine Corp. of San Jose, Calif., will build a 530-megawatt natural gas-fired combined cycle unit at the existing West Phoenix Power Station. Pinnacle West also will build a 130-megawatt combined cycle unit at West Phoenix. Environmental permit applications are being prepared and submitted, and construction of the smaller unit is to begin early next year.

Natural gas-fired, combined cycle technology is widely regarded as clean burning because it first uses hot combustion gases to power one turbine and then uses the same gases a second time to produce steam that can power a second turbine, essentially using the same heat energy twice. Combined cycle technology produces the lowest emissions of any fossil fuel.

Long term, the Pinnacle West projects will provide electricity to sustain a strong economy, Stewart said. In addition, they will make available low-cost power for consumers during periods of high demand, such as during hot summer months, as well as stabilize the southwestern power grid to prevent imbalances that can cause power interruptions.

Pinnacle West, through its subsidiary APS, manages approximately 8,000 megawatts of generating capacity.

This press release contains forward-looking statements that involve risks and uncertainties, which include, but are not limited to, the ongoing restructuring of the electric industry; the outcome of the regulatory proceedings relating to the restructuring; regional economic and market conditions, which could affect customer growth and the cost of power supplies; the cost of debt and equity capital; weather variations affecting customer usage; the successful completion of a large-scale construction project; and the strength of the real estate market. These factors and the other matters discussed above may cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by the Company.

CONTACT: Pinnacle West Capital Corporation Jim McDonald 602/250-3704 (office) 602/321-3738 (cell) Paul Reynolds, 602/379-2629 (office) 18:33 EDT SEPTEMBER 29, 1999

EXHIBIT 10

12:10pm EST 19-Jan-01 Merrill Lynch (S.Fleishman/S.Brothwell) PNW PNW.N
 PINNACLE WEST:Deregulated Generation in the West

ML++ML++ML Merrill Lynch Global Securities Research ML++ML++ML
 PINNACLE WEST CAPITAL CORP (PNW/NYSE)
 Deregulated Generation in the West
 Steven I. Fleishman (1) 212 449-0926
 Sam Brothwell (1) 212 449-9703

ACCUMULATE Long Term: BUY

Reason for Report: Q4 Earnings Review; Raising 2001E

Investment Highlights:

- o Q4 earnings of \$0.50 came in well above our \$0.43E. Upside came from higher electric margins, primarily wholesale.
- o 2000 was a sizzling year for PNW - with access into the high priced, volatile Western markets, PNW's wholesale business capitalized on the opportunities.
- o Raising 2001E to \$3.60 from \$3.50. With forward price curves still reflecting the tight supply situation, electric margins should remain strong. Initial 2002E is \$3.85.
- o PNW recently announced it would not match a higher bid EIX received for 710MW of Four Corners Unit 1 & 2. The 610MW purchase agreement for Palo Verde is still pending before the CPUC in CA but is in doubt due to the California crisis.
- o PNW has hedged its summer exposure assuming EIX assets are not purchased, but this is important to watch.
- o Exposure to CA has been limited by selling into CA only when asked by the ISO and credit risk management.
- o With a solid mgmt team in place and a focused strategy in Western markets, PNW remains a core midcap utility holding. Our price objective is \$50, or 14x 2001E.

Price:	\$41
12 Month Price Objective:	\$50
Estimates (Dec)	2000A 2001E 2002E
EPS:	\$3.57 \$3.60 \$3.85
P/E:	11.4x 11.4x 10.6x
EPS Change (YoY):	0.8% 6.9%
Consensus EPS:	\$3.65 \$4.01
(First Call: 28-Nov-2000)	
Cash Flow/Share:	\$7.55 \$7.70 \$7.95
Price/Cash Flow:	5.4x 5.3x 5.2x
Dividend Rate:	\$1.50 \$1.60 \$1.70
Dividend Yield:	3.7% 3.9% 4.1%
Opinion & Financial Data	
Investment Opinion:	B-2-1-7
Mkt. Value / Shares Outstanding (mn):	\$3,394.9 / 85
Book Value/Share (Sep-2000):	\$28.05
Price/Book Ratio:	1.5x
ROE 2000E Average:	NA
LT Liability % of Capital:	44.4%
Est. 5 Year EPS Growth:	8.0%

Stock Data

52-Week Range: \$52.69-\$25.69
 Symbol / Exchange: PNW / NYSE
 Options: Pacific

Institutional Ownership-Vickers: 73.8%

Brokers Covering (First Call): 11

For full investment opinion definitions, see footnotes.

Earnings Review

Q4 2000 - Reported & Operating \$0.50 vs. \$0.53.

12 Months Ended Dec 2000 - Reported \$3.57 vs. \$1.98 per share; Operating \$3.57 vs. \$3.18 per share.

Adjustments: 1999 - \$1.65/share regulatory disallowance and a \$0.45 Merabank tax credit, both Q3.

Closing The Books With An Upside

Q4 earnings of \$0.50 came in well above our \$0.43E and Consensus of \$0.44. Upside came from higher electric margins, primarily wholesale. This more than offset the absence of investment tax credits (ITC) and the rate cut impact. The investment sub (El Dorado) performed in line with a weak tech market while the real-estate sub (Suncor) took advantage of higher sales opportunities.

At APS, earnings jumped to \$0.63 vs. \$0.42. Sales were up a strong 16.2% with retail up 3.8% (Residential +8%, Commercial +2%) and wholesale +33.1%. Electric gross margins advanced +\$0.14/share which includes a \$0.03-\$0.04/share drag from 1.5% rate cut. Upsides came from the high-priced, volatile power markets, cooler than normal weather, increased customer growth and usage. Lower O&M (+\$0.06) and interest expense (+\$0.02) also helped. Offsets include absence of ITCs (-\$0.04) and higher D&A (-\$0.03).

Suncor advanced modestly to \$0.04 vs. \$0.03 on increased land/home sales. El Dorado suffered a loss of \$(0.06) vs. \$0.13 on mark-to-market accounting. Q4'99 had included some sizeable gains which we had indicated were unlikely to be repeated. Corporate dragged \$(0.11) vs. \$(0.05).

Sizzling Year

EPS of \$3.57 increased 12.3%, driven by solid earnings from APS. Suncor earnings doubled from increased land and home sales. El Dorado suffered a decline in earnings, along with a weak tech market, after realizing significant gains in Q1 from a change in mark to market accounting.

Retail sales grew +6.9% (Resi +11.5%; Comm +3.8%) and wholesale +40.2%. Customer growth increased 3.7%, in line with historical growth trends. APS advanced to \$3.61 from \$3.14 with electric gross margins leading the way (+\$0.70). Margins improved despite a -\$0.18 rate reduction. In Q2, when power prices hit its summer peak early, PNW capitalized in its net long position in the tight Western markets, and enjoyed sizeable wholesale gains. Continued volatility of power prices and a cold start to this winter enabled PNW to book wholesale gains in Q4 as well. Some of these gains were offset by booking higher purchased power costs in Q3 when PNW is supply short. Absence of ITC hurt -\$0.28. Suncor earnings doubled to \$0.14 while El Dorado slipped to \$0.02 vs. \$0.14.

Update on Generation Projects

PNW disclosed last week that it was not going to match a higher, competing bid Southern California Edison had received for a 48% stake in Units 4 & 5 of Four Corners (710MW). The agreement between the two companies for purchasing 15.8% of the Palo Verde nuclear plant (600MW) is still pending before the CPUC. In light of the recent CA power crisis, the Commission has stated it would need to re-evaluate the purchase agreement. We would note that for 2001 and 2002, PNW has hedged forward its summer peak requirements assuming it does not own the EIX plants. Existing resources includes the 120MW West Phoenix plant upgrade coming on line in 2001. The JV with Calpine, which called for the remaining 530MW upgrade of the West Phoenix plant, has been called off. Instead, PNW will now do the upgrade by itself and it is still expected to be on line for summer 2003. In summer 2002, Redhawk Units 1 & 2 (1060MW) are expected to come on line.

Limited California Exposure

While PNW does trade in the infamous California region, it has limited its exposure. As operators of the Palo Verde and Four Corners plants, a default by EIX on operating costs means PNW does not get paid. However, any unpaid balances result in EIX losing entitlement to the power, eliminating some of PNW's risk. In addition, PNW has been managing exposure to the ISO and PX by shifting business to the more creditworthy of the two and selling into the CA market only if called to do so by the ISO.

Earnings and Stock Outlook

We are raising our 2001E to \$3.60 from \$3.50. With forward prices reflecting the tight supply situation, we believe PNW's wholesale operations should continue to have some attractive opportunities. Moreover, the reg asset amortization schedule calls for a \$6M decrease versus 2000. We also expect Suncor's improvement to continue. Our initial estimate for 2002 is \$3.85.

PNW has most of what we like in a utility: top tier EPS growth potential, a high growth market, attractive generating assets that have been deregulated, and no return caps in its rate deal. Management is shareholder-oriented and has a focused strategy in a focused market. Our price objective is \$50 at 14x our 2001E.

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EXHIBIT 11

SUISSE

CREDIT SUISSE FIRST BOSTON CORPORATION

Americas

U.S./Electric Utilities

April 16, 2001

BUY
USD 47.25

LARGE CAP

Pinnacle West Corporation

PNW

Raising Estimates—Positive Analyst Meeting and Fourth Quarter Earnings Results

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- On April 11, Pinnacle West held a positive analyst meeting to reiterate its strategy of focusing on unregulated generation in the western markets and its utility operations in Arizona.
- The company will continue with its plan to separate utility assets into a generation subsidiary by the end of 2002. Its portfolio of announced projects is expected to grow from 4,000 currently to 6,800 MW by 2006.
- Management indicated that its downside exposure to the California power crisis is minimal. In addition, the company has financially covered its net short and fuel exposure for the next two years, with a combination of long-term purchases, hedges, and option contracts.
- Separately, Pinnacle West reported first quarter EPS, on April 9, of \$0.70. The results exceeded last year's EPS of \$0.64 and represent 9% year-over-year growth. The major growth driver was increased wholesale sales to the Western power markets.
- Based on strong wholesale pricing in WSCC and PNW's below-average production costs and above-average utility sales growth, we raised our EPS estimates to \$3.90 and \$4.20 from \$3.60 and \$3.93 for 2001 and 2002, respectively. Our rating is Buy with a price target of \$59.

Price 4/11/01 ¹	Target (12-18 Months)	Dividend	Yield	Mkt. Value (Millions)	52-Week Price Range	
USD 47.25	\$59	\$1.50	3.1%	\$4,016.3	\$52.69-25.69	
	Annual EPS	Prev. EPS	Abs. P/E	Rel. P/E	EV/ EBITDA	EBITDA/ Share
12/02E	\$4.20	\$3.93	11.3X	61%	6.7X	\$13.69
12/01E	3.90	3.60	12.1	58	6.9	13.32
12/00A	3.58		13.3	64	6.7	12.61
	March	June	September	December	FY End	
2001E	\$0.70A	\$1.15	\$1.49	\$0.56	Dec. 31	
2000A	0.64	1.06	1.37	0.50		
ROIC (12/00)	5.72%	Total Debt (12/00)		\$2.5 bl.	Book Value/Share (12/00)	\$28.09
WACC (12/00)	6.72%	Debt/Total Capital (12/00)		55%	Common Shares	85 mil.
EP Trend ²	Positive	Est. 3-Yr. EPS Growth		9.8%	Est. 3-Yr. Div. Growth	7.0%

¹On 4/11/01 DJIA closed at 10013.5 and S&P 500 at 1185.9.

²Economic profit trend.

Pinnacle West Capital's major subsidiary is Arizona Public Service, Arizona's largest electric utility. PNW's other subsidiaries are SunCor Development Company, a real estate development company, and EL Dorado Investment Company, an investment firm with a diversified portfolio, Pinnacle West Energy and APS Energy Services.

Investment Summary

Well positioned for
strong stable growth

On April 11, Pinnacle West held a positive analyst meeting in New York to reiterate its growth strategy. In particular, the company reviewed its generation strategy in the western markets, its management of purchased power and fuel risk, the performance of its investment companies, and financial strategy.

An important note was management's indication that its downside exposure to the California power crisis is minimal, with \$5 million in receivables reserved in 2000 and another \$5 million reserved in 2001. The company said that it has withdrawn from agreements in which credit risk is significant and now only makes sales to the California Department of Water Resources (DWR) and other credit-worthy parties.

In addition, the company has financially covered its entire net short and its fuel exposure for the next two years with a combination of long-term purchases, hedges, and option contracts. During the summer of 2000, Pinnacle's net short position exposed it to higher-than-expected purchase power costs. However, we believe the company has successfully remedied this weakness.

We believe that Pinnacle is on track with its plan to become a successful regional energy provider. Although its pending acquisition of Southern California's stake in the Palo Verde plant may not be realized because of regulatory and legislative events, Pinnacle's build-out program will still be substantial and increase its portfolio by at least 30%, to 5,240 MW in 2002, and at least 70%, to 6,830 MW in 2006.

Based on strong wholesale pricing in WSCC and Pinnacle's below-average production costs and above-average utility sales growth, we raised our EPS estimates to \$3.90 and \$4.20 per share from \$3.60 and \$3.93 for 2001 and 2002, respectively. Our rating is Buy with a price target of \$59.

Western Generation Strategy

Key asset with flexible
access to the western
power markets

Pinnacle is focused on becoming a major energy provider to the western markets and plans to leverage its knowledge of the region to maximize market opportunities. The company currently owns the second-largest portfolio in the western markets and has a build-out program that should substantially enhance its generation position. It also owns or has access rights to transmission networks throughout nine western states.

Pinnacle draws from a diversified fuel mix that relies on 37% nuclear, 52% coal, and 11% natural-gas-fired generation. In the current high-gas-price environment, Pinnacle's fuel mix provides it with a cost advantage compared with other generators in WSCC, which on average have a larger percentage of gas-fired generation. By 2004, the company plans to have approximately 25% nuclear generation, with the remainder split equally between gas and coal.

The company plans to continue improving its production and capacity efficiency. Its baseload production cost has consistently fallen below the national average during the last six years. In 2000, its nuclear production costs were 1.25 cents per kWh compared with the national industry average of about 1.75 cents per kWh. In addition, Pinnacle's baseload capacity factor is lower than the national average. It achieved 93% capacity factor at Palo Verde in 2000 compared with the national average of 87%. Its coal units reached 83% capacity factor compared with the national average of 70%.

Superior Utility Performance

Arizona Public Service (APS) benefits from strong job and population growth in the state of Arizona. Its customer growth rate in 2000 was 3.7% compared with the industry's average rate of 0.8%. Over the same period, APS retail sales grew by 7%, offsetting a 1.5% rate reduction that was implemented in July 2000.

The utility has regulatory settlement that mandates the transfer of its generating assets to a generation subsidiary, named Pinnacle West Energy, by the end of 2000. In addition, the utility will have annual rate reductions of 1.5% a year in its retail rates until the transition period ends in 2004.

Over the next three years, the utility is expected to spend about \$1 billion in capital expenditures to upgrade and maintain its delivery system.

Financial Strategy

Pinnacle anticipates capital expenditures of \$1.21 billion in 2001, \$562 million in 2002, and \$571 million in 2002. Of those amounts, \$659 million, \$129 million, and \$254 million, respectively, are to be allocated to Pinnacle West Energy primarily for generation expansion.

The company expects to finance its expenditures through internally generated cash, construction revolvers, note issuances by the parent company and Pinnacle West Energy, and tax-exempt debt to be transferred from the utility to Pinnacle West Energy. The parent company recently issued \$300 million in senior notes.

The company's debt ratio at the end of 2000 was 55%, and it is expected to rise a few percentage points over the next few years during the build-out period, and then decline as the incremental generation.

The company does not plan to undertake share repurchases or equity issuances in the near future.

First Quarter Earnings

On April 9, Pinnacle West reported first quarter EPS of \$0.70. The results exceeded last year's EPS of \$0.64 and represent 9% quarter-over-quarter growth. The major growth driver was increased wholesale sales to the western power markets, which grew by 51% in volume over the prior-year quarter. Also contributing to earnings growth was strong utility customer growth of 3.8% and retail energy sales of 7.2%. The gains offset a onetime market gain by El Dorado, the investment subsidiary in the first quarter of 1999.

Offsetting growth was SunCor, the real estate investment unit, which reported net income of \$0.5 million this quarter compared with \$5.3 million last year. The decline was due to the timing of asset sales. In addition, the company took a \$5 million reserve in the quarter for sales to the California Power Exchange (CalPX).

Consolidated revenues grew by 92.3% to \$939 million, driven primarily by a strong increase of 103.1% in electric revenues. Consolidated EBIT grew 7% to \$135.3 million, while net income grew by 10% to \$59.5 million.

N.B.: CREDIT SUISSE FIRST BOSTON CORPORATION may have, within the last three years, served as a manager or co-manager of a public offering of securities for or makes a primary market in issues of any or all of the companies mentioned.

EXHIBIT 12



ELECTRIC UTILITIES

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UBS Warburg

RESEARCH NOTE

April 12, 2001

**Pinnacle West Capital
(PNW-\$47.25)**

Rating: Strong Buy

Pinnacle West: 1Q 2001 Earnings Rise 14% on Strength in Wholesale Operations

Key Data		Quarterly Earnings Per Share (fiscal year ends December)				
		2000A	2001E	Prev	2002E	Prev
52-Wk Range	\$52-29	1Q	\$0.64	\$0.73A	\$0.92	
Eq.Mkt.Cap.(MM)	\$4,002	2Q	1.06			
Sh.Out.(MM)	84.7	3Q	1.37			
Float	99%	4Q	0.50			
Inst.Hldgs.	73.2%	Year	\$3.56	\$4.05	\$4.00	
Av.Dly.Vol.(K)	334	FC Cons.:	\$3.56	\$3.70	\$3.98	
Curr. Div./Yield	\$1.50/3.2%	P/E:	13.3x	11.7x	11.8x	
Sec.Gwth.Rate	10%	Revs.(MM):	NA	NA	NA	
12-mo. Tgt Price	\$55.00					
12-mo. Ret. Pot'l	19.6%					
Convertible?	No					

Pinnacle West Capital supplies electricity to the entire state of Arizona with the exception of Tucson and 1/2 of the Phoenix area; PNW also owns, holds, and develops real property in Arizona and makes equity investments in other companies. PNW also develops merchant power plants.

KEY POINTS

- PNW reported first quarter 2001 earnings per share from continuing operations of \$0.73 versus \$0.64 last year, a 14% increase. Operating results exclude an after-tax charge of \$2.8 million, or \$0.03 per share, related to the cumulative effect of a change in accounting for derivatives.
- The solid earnings performance was largely due to an increase in wholesale power marketing sales to the western markets at significantly higher prices, as well as higher sales and strong customer growth at Arizona Public Service's (APS) regulated retail business. However, poor performances at El Dorado, the company's investment subsidiary, and SunCor Development Company, the company's real estate subsidiary, partially offset the strength of PNW's wholesale marketing functions and APS.
- Although below our aggressive quarterly earnings forecast of \$0.92 per share, we are pleased with PNW's first quarter performance. Our estimate reflected the expected strong performance of PNW's wholesale marketing and trading operations; however, the decline in earnings contributions from PNW's unregulated subsidiaries El Dorado and SunCor Development was more than expected and overshadowed the solid results from wholesale and retail operations.
- Soaring demand for wholesale power in western markets and corresponding escalating power prices in the West (January 2001 through March 2001 Western region wholesale power prices have risen eight times over the corresponding period last year) translated into a 51% increase in first quarter 2001 wholesale power sales to 4.4 million MWh from 2.9 million MWh and a 103.1% increase in electric operating revenues to \$906.5 million from \$446.2 million. Electric operations earned \$64.0 million in the first quarter 2001, nearly double the \$32.8 million earned in last year's first quarter.
- APS retail service territory exhibited customer growth of 3.8%, nearly three times the national average. As a result, retail energy sales rose 7.2% to 4.9 million MWh.
- El Dorado earned \$0.5 million in the first quarter 2001 versus \$19.1 million in the same quarter last year due to the quarterly write-down of several technology-related investments. With the NASDAQ market down again during the first quarter 2001, the standard quarterly mark-to-market accounting procedure led to a devaluation of many of these investments.

- SunCor Development Company reported lower net income of \$0.5 million, compared with \$5.3 million for the prior-year quarter. The difference is due primarily to the timing of large parcel sales in the prior year.
- PNW has reserved \$5 million before income taxes in the fourth quarter 2000 and an additional \$5 million before income taxes in the first quarter 2001 for its credit exposure to the California situation. PNW has significantly scaled back its retail marketing operations in California and is involved in transactions with the California Department of Water. Currently, the company expects no material adverse effect from the California situation.
- We are maintaining our Strong Buy rating on PNW shares with a price target of \$55 per share. Our target price is based upon a 14x P/E ratio on estimated 2001 EPS. We believe PNW should trade at a premium to the group given its aggressive regional expansion strategy in the Southwest, access to several wholesale power trading hubs in the West, above average service territory growth, low-cost generation and definitive restructuring plan. We are using normalized EPS of \$3.92, assuming that if western power markets were not impacted by the California power crisis, wholesale prices would be lower.

HIGHLIGHTS FROM MEETING WITH MANAGEMENT

Wednesday afternoon, PNW management met in New York with analysts and investors to discuss current operations and strategy.

PNW is well positioned to meet peak load demand for the next two years. PNW is well hedged to meet its summer peak demand for both 2001 and 2002 and intends to have excess capacity to sell into the wholesale power markets.

PNW is committed to maintaining high efficiency ratings for its generation. For year 2000, the capacity factors of its Palo Verde nuclear generating station and coal plants were 92.7% and 83.1%, respectively, versus the national average of 87.2% and 70.0%. Greater plant utilization provides PNW with excess capacity to sell into the power-hungry Western wholesale markets.

Palo Verde planned outage extended. A scheduled refueling outage at the Palo Verde Unit 1 (1,270 MW) nuclear plant has been extended by 20 days to correct a mechanical problem at the plant. The unit was shut down on April 2nd, for a 30-day refueling outage. No meaningful impact is anticipated from the extended outage, but it does create an opportunity cost of potential lost revenues from selling any excess capacity in the wholesale markets. APS owns 29.1% of the Palo Verde nuclear power plant and is also the plant's operator.

Generation capacity is expected to increase by 71% over the next five years. PNW will add 541 MW of new generation supply in 2001 and currently has over 3,300 MW of generation capacity under construction in Arizona. Existing capacity totals 3,988 MW (43% coal, 30% gas/oil, 27% nuclear). PNW's coal assets provide a competitive advantage as it allows PNW to sell the excess low-cost capacity into the wholesale market at attractive spark spreads. Going forward, the portfolio resource mix will shift more heavily towards gas as additional capacity comes on line.

Management indicated that company is on schedule to possess 4,180 MW, 5,240 MW, 5,770 MW and 6,830 MW

of generation capacity by 2001, 2002, 2003 and 2006, respectively.

PNW has plans to build a gas storage facility in Arizona. A gas storage feasibility project is underway in which PNW would build a gas storage facility of meaningful size. PNW's strategy would be to operate the facility and share the storage with others. We believe such a facility would be of significant value to PNW as well as the Western markets given the gas deliverability problems that have plagued California recently.

SunCor Development Company. Assets totaled \$456 million at year-end 2000. SunCor's primary activities include real estate development projects in the southwestern US. Commercial property management has contributed over half of total revenues.

El Dorado. The investment company's book value is currently \$10 million, down from \$21 million at year-end 2000. Investments consist of technology stocks via ownership in a venture capital fund and energy-related investments. The downturn in tech-related issues has negatively effected the value of El Dorado's investments-\$3 million or one-third of book value is publicly traded securities. It is this one-third that is subject to quarterly mark-to-market accounting.

Financial Condition. PNW is among the top utilities in terms of cash flow per share at slightly over \$8 per share. The debt ratio, which stands at 55% at year-end 2000, is down from 60% in 1995.

PNW is pursuing a regional strategy. PNW is positioning itself as a major player in the Southwest region with nearly 3,300 MW of generation capacity under construction. The company will maintain a competitive advantage over other utilities in the region with the additional capacity combined with transmission access to the entire western US.

Definitive restructuring plan in place. On September 23, 1999, the Arizona Corporation Commission (ACC) voted to approve the comprehensive regulatory settlement

that had been proposed by APS in May 1999. The settlement includes the following provisions:

- APS will form a corporate affiliate or affiliates and transfer at book value its generation assets and competitive services. That transfer must take place no later than December 31, 2002.
- APS would reduce rates for small customers through a series of annual reductions of 1.5% beginning July 1, 1999, through July 1, 2003, for a total of 7.5%. For larger customers (with loads of 3 MW and up), the rate cuts would total 5% through 2002.
- Unbundled rate for distribution service would also be subject to rate reductions that vary by class of customer.
- There would be a moratorium on retail price changes until July 1, 2004, except for the above mentioned price changes.
- APS would be permitted to defer for later recovery costs of complying with the ACC's competition rules, including costs associated with being the provider of last resort.
- Retail access began September 24, 1999, and was phased in under a schedule that would allow 100% of retail customers to choose their power supplier by January 1, 2001.
- APS was allowed to recover \$350 million of stranded costs through a competitive transition charge that will remain in effect through December 31, 2004. APS had demonstrated that its allowable stranded costs were at least \$533 million, and therefore, the settlement disallowed \$183 million in costs.

RISKS

PNW's earnings can be impacted by volatility in the wholesale power markets, by the price of gas and by fluctuations in weather.

Additional information available upon request.

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EXHIBIT 13

Equity Research
North America

United States of America

Electric Utilities

Pinnacle West

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Analysis of Sales/Earnings

April 16, 2001

On The High Road To
California

OUTPERFORM

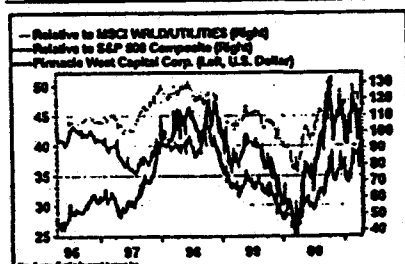
Price (April 11, 2001): \$47.25
Price Target: \$52
52-Week Range: \$52.69 - 29.50

WHAT'S CHANGED

Earnings (2001): From \$3.70 to \$3.75

- PNW another SW utility winning from CA
Pinnacle opens the 1Q earnings season with above consensus numbers, joining UNS and PNM as Desert Southwest utilities benefiting from West Coast pricing.
- Generation Spin Down The Event To Watch For
Management would like to get the asset separation done before ACC changes in 2002. Good margins on utility load and leverage to wholesale markets should mean higher gross margins.
- 1Q comes in at \$0.73. Raising 2001E to \$3.75, maintaining 2002E. Power sales revenue doubled, more than offsetting declines at the real estate (SunCor) and investment (Eldorado) unit.

Price: Abs. and Rel. To Market & Industry



Company Description

Pinnacle West is a holding company for a diverse group of subsidiaries. The company is the parent of Arizona Public Service, that state's largest electric utility. Other subsidiaries are involved in real estate and venture capital investments, including part ownership of the Phoenix Suns.

FY ending Dec 31:	2000A	2001E	2002E	2003E
EPS (\$)	3.56	3.75	4.10	-
Prior EPS Ests. (\$)	-	3.70	-	-
Consensus EPS Ests. (\$)	-	-	-	-
CEPS (\$)	8.63	8.85	8.89	-
P/E	13.3	12.6	11.5	-
P/E Rel. to (local index)	-	-	-	-
P/ICE	5.5	5.3	5.3	-
Price/Book	1.7	1.5	1.4	-
EV/EBITDA	-	-	-	-
Yield (%)	3.0	3.2	3.4	0.0

Market Cap (\$ m)	4,003	Qtrly EPS	2000A actual	2001E curr	2001E prior	2002E curr	2002E prior
Enterprise Value (\$ m)	6,297.1	Q1	0.64	NA	-	NA	-
Debt/Cap (12/00) (%)	46.9	Q2	1.06	NA	-	NA	-
Return on Equity (12/00) (%)	13.7	Q3	1.37	NA	-	NA	-
L-T EPS Grth (Yy - Yy) (%)	10.0	Q4	0.50	NA	-	NA	-
P/E to Growth	1.33						
Shares Outstanding (m)	84.7						

E = Morgan Stanley Dean Witter Research Estimate

On The High Road To California

Summary and Investment Conclusion

PNW opened the 1Q earnings season on what we expect will be a steady round of good notes. Earnings came in at \$0.73 vs. \$0.64 in the year ago quarter – an increase of 14%.

Like UNS and PNM – who have already pre-announced upside to their 1Q EPS – PNW had very strong results from the electric business, with a near double in power sales. This made up for year-over-year declines at the real estate (SunCor: -\$4.8 million) and investment (Eldorado: -\$18.6 million) units.

We met with management last week following analyst meetings in New York and Boston and came away still positive on what we consider to be a relatively undervalued stock – 12.6X our 2001E vs. 13.4X for our group of upstream oriented integrated utilities – with a 10% growth rate.

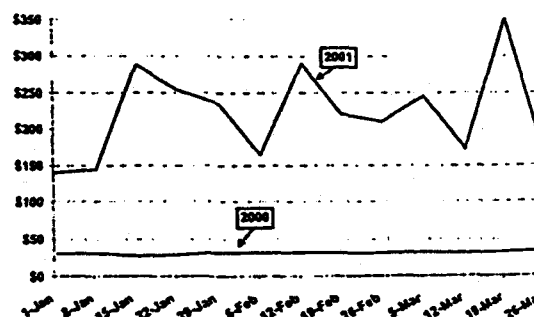
Strategically, management is focused on completing a spin down of the utility generating assets – roughly 4,000 MW of coal, gas/oil, and nuclear capacity – to an unregulated unit. The goal is to get the deal done before changes at the ACC, the state regulators, in 2002.

With decent margins on native load and leverage to the West Coast markets a separation from the regulatory overhang should bring better margins.

We are bumping up our 2001E from \$3.70 to \$3.75 based on a strong 1Q. Trailing twelve-month EPS stands at \$3.65. We are maintaining Outperform rating.

The leverage is all to California – or more specifically to the Palo Verde trading hub where prices have soared on the back of shortages in Southern CA. PNW is a net seller during most times of the year – except for 3Q.

Exhibit 1
PRICES HIGHER ALL OVER
Palo Verde (California)



Source: Morgan Stanley Commodities Group

EXHIBIT 14

03:43am EDT 22-Oct-01 Lehman Brothers (Ford, CFA, Daniel 1 212 526 0836) PNW
Pinnacle West Capital: A Big Quarter (part 1 of 2)

PRICE: (USD 40.24)

EPS (FY Dec)

	2000 Actual	Old	2001 New	St. Est.	Old	2002 New	St. Est.	% Change 2001	2002
1Q									
2Q									
3Q									
4Q									
Year	3.56	3.63	4.10		3.93	4.10			
P/E	11.3x		9.8x			9.8x			
Market Data									
Market Cap									
Shares Outstanding (m)									
Float									
Dividend Yield				4.00					28.00
Convertible				No					51.0
52 wk Range				51 - 38					None

Rating	Target
New: 3 - Market Perform	New: 43.00
Old: 3 - Market Perform	Old:

INVESTMENT CONCLUSION :

* PNW reported a strong Q3 of \$1.91 driven by power marketing and trading results. We maintain our Market Perform rating as the stock looks fairly valued given the upcoming regulatory process with the ACC.

SUMMARY :

* PNW's utility (APS) introduced a regulatory proposal, which will adjust AZ competition rules and could provide EPS upside if approved as proposed. PNW is seeking approval by year-end but AZ politics may lengthen.

* We are raising our 2001 estimate to \$4.10 from \$3.63 to reflect a strong 3Q and \$0.67 in Q4. Our 2002 estimate moves to \$4.10 from \$3.93 to reflect our best estimate of the financial implications of the regulatory proposal. We maintain our MP rating as the Arizona regulation has rarely been smooth sailing.

PNW reported very strong third quarter results of \$1.91 versus \$1.37 in Q32000. The EPS strength and surprise was almost entirely driven by the historically unprofitable (\$0.03 loss in 2000) power marketing and trading activities. The quarterly earnings breakdown was as follows: 1) the utility (APS) EPS fell to \$1.27 from \$1.46 in the year-ago period as a result of higher O&M and replacement purchased power costs; 2) PW Energy contributed \$0.13 versus \$-0.01 as West Phoenix 4 and additional peaking capacity were on-line; 3) Energy Services loss rose to \$0.04 from breakeven last year; 4) El Dorado losses of \$0.11 in 3Q2000 dropped off as the investment portfolio has largely been written down; and 5) Holding company driven by Power marketing and trading (PWMT) kicked in \$0.50 versus \$0 in the year ago

period.

The primary driver of EPS growth in the quarter came from PWMT and wholesale activities break down as follows: 1) \$0.37 from structured trading activities; 2) \$0.23 from power marketing and trading and wholesale activity; 3) \$0.12 of ongoing FAS 133 adjustment. The structured contracts included electricity, transmission and natural gas both inside and outside of Arizona with terms ranging from 1-7 years. PNW indicated the structured trading activity has been largely hedged and therefore the \$0.37 of profit should be protected as booked. While PNW indicated they continue to see opportunities in the PWMT and wholesale areas, CEO Bill Post indicated 2001 EPS results may be tough to improve upon in 2002.

As a result of the strong 3Q EPS driven by PWMT, we are raising our 2001 estimate to \$4.10. As the sustainability of earnings from PWMT is difficult to gauge, we are not including a repeat performance in our upward revised 2002 estimate of \$4.10 from \$3.93. Our revised 2002 estimate reflects our assumption that PW Energy plants coming on line will realize a blended \$40/mwh under a PPA to APS (as part of a new regulatory agreement) or realized on the open market.

Asset Transfer Broadens Out

Late Thursday night, APS filed a regulatory proposal with the Arizona Corporation Commission (ACC). The proposal is an effort to achieve the successful transfer of APS utility generation to PW Energy and clarify elements of the 1999 regulatory agreement and competition rules. APS is not seeking to alter the terms of the 1999 regulatory agreement, but is seeking a partial variance to the ACC competition rules.

The proposal includes the following major elements:

- * The restructuring of the competitive bidding for standard offer generation requirements.

APS would like to restructure the requirement to procure 50% of standard offer requirements from the competitive market during 2003. In its place APS beginning in 2003 proposes to acquire 270 MW of APS standard offer requirements on the open market through a competitive bidding process. This competitive bid obligation would be increased by an additional 270 MW each year through 2008 (representing approximately 23% of estimated 2008 peak load).

- * The establishment of a PPA between PW Energy/PWMT and APS

PNW is proposing a long-term full requirements PPA that has 3 optional renewal periods through 2015 with the potential extension to 2030. The PPA would go into effect upon approval and therefore the contract rate prior to July 2004 would need to fit within existing rates. Beyond July 2004, the contract pricing could be adjusted to reflect changes in commodity costs as was envisioned with the reestablishment of a fuel clause in the 1999 agreement. The PPA would contain a fixed component (based on a 50/50 capital structure and 11.25% ROE/7.5% debt cost) and variable component for fuel/pp costs. Finally, the agreement includes a provision that PWMT would be able to remarket excess power not demanded by APS retail and keep 75% of the profits with the balance going to APS customers.

The PPA would take effect on the latest of the following events: 1) transfer of non-nuclear generating assets from APS to PWEC, presently planned to take place by the end of 2001; 2) ACC approval of the variance and the PPA; and 3) FERC acceptance of the PPA and the companion agreement between APS and PWEC.

Who Gets What under the Proposal

APS

The proposal is being put forth as an attempt to provide APS customers price stability/service reliability while a competitive market slowly develops. This proposal would appear to protect APS and Arizona customers from a repeat of California, but may come at the cost of developing a viable competitive market.

PW Energy and PWMT

The proposal as envisioned appears favorable for PW Energy and PWMT as it would provide price stability and marketing opportunities to the companies existing Mws and Mws under construction. Specifically, the PPA pricing would appear to be an attractive price for new gas fired generation that could produce healthy ROE's if true equity invested is more in line with 25%-35% of capital. The 70/30 split for PWMT could offer additional upside with potentially limited downside as the capacity component of the contract appears quite thick and would place PWMT downside risk below \$17.40/mwhr.

The only reference price in the proposal is a \$48/mwhr price in 2004, which reflects \$17.40/mwhr of variable fuel cost and by deduction \$30.60/mwhr of fixed or capacity cost. Pulling this price backwards indicates PW Energy would realize a sale price to APS at \$47/mwhr and \$47.65/mwhr in 2002 and 2003.

	2002	2003	2004
Mws	3572	5512	5777
fixed payment millions \$	424.8	759.6	805.44
\$/kw year	\$118.92	\$137.81	\$139.42
mwhrs under 52% cap factor	16274994	25114157	26321569
total capacity in mwhrs	31290720	48285120	50606520
cap factor	52.0%	52.0%	52.0%
fixed /mwhr	\$26.10	\$30.25	\$30.60
variable mwhr	\$21.00	\$17.40	\$17.40
Total cost/mwhr	\$47.10	\$47.65	\$48.00

Based on our estimate of the cost of supplying new gas fired generation, we believe the contract price may be downward negotiated as it moves through the approval process. We believe a \$40/mwhr price (see below) for the new gas fired generation could ultimately be the result and have incorporated this in our estimates.

Fuel	\$ 17.50
O&M	\$ 3.00
Prop tax	\$ 1.00
Depr	\$ 3.26
Capital Return	\$ 13.41
Total	\$ 38.17

The Arizona Corporation Commission

The proposal would provide an opportunity for the ACC to avoid a California repeat without spending a lot of effort to restructure the current

competition rules as they stand. The apparent trade-off would appear to be delay of a competitive market and any potential price decreases resulting from competitive generators overbuilding in the transmission constrained Arizona market.

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EON

EXHIBIT 15

11:13am EDT 17-Apr-01 Merrill Lynch (S.Fleishman/S.Brothwell) PNW PNW.N
PINNACLE WEST:Managing for Tomorrow

ML++ML++ML Merrill Lynch Global Securities Research ML++ML++ML
PINNACLE WEST CAPITAL CORP (PNW/NYSE)
Managing for Tomorrow
Steven I. Fleishman (1) 212 449-0926
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ACCUMULATE Long Term: BUY

Reason for Report: Q1 Earnings Review; Raising 2001E and 2002E

Highlights:

- o Q1 earnings of \$0.73 were as expected and grew 9% versus Q1 2000. Continued strength in the electric business more than offset the absence of portfolio gains at El Dorado.
- o PNW continues to capitalize on its access to the high-priced and volatile Western power markets. Outlook is still on the upside with summer exposure hedged this year and next.
- o We are raising our 2001E to \$3.75 from \$3.60 and taking our 2002E up to \$4.15 from \$3.85. These changes reflect ongoing tight market conditions and the benefits of non-regulated generation expansions (mainly in 2002E).
- o Generation investment remains on course with the major Redhawk 1 & 2 project (1,060 MW) due on line for summer 2002.
- o Exposure to CA continues to be limited with PNW having pulled back from the market late last year. Current CA reserves total \$10mn.
- o Management plans to ask for an accelerated (2001 vs. 2002) transfer of generation assets to PWE in return for contracts with the utility.
- o With a solid team management team taking a prudent long-term market view, PNW is one of our core midcap utility holdings. Revised price objective is \$55 at 13-14x our 2002E.

Price:	\$49.25		
12 Month Price Objective:	\$55		
Estimates (Dec)	2000A	2001E	2002E
EPS:	\$3.56	\$3.75	\$4.15
P/E:	13.8x	13.1x	11.9x
EPS Change (YoY):		5.3%	10.7%
Consensus EPS:		\$3.77	\$4.05
(First Call: 16-Apr-2001)			
Q1 EPS (Mar):	\$0.64	\$0.73	
Cash Flow/Share:	\$8.47	\$8.67	\$8.98
Price/Cash Flow:	5.8x	5.7x	5.5x
Dividend Rate:	\$1.50	\$1.60	\$1.70
Dividend Yield:	3.0%	3.2%	3.5%
Opinion & Financial Data			
Investment Opinion:	B-2-1-7		
Mkt. Value / Shares Outstanding (mn):	\$4,176.4	/	84.8
Book Value/Share (Dec-2000):	\$28.09		
Price/Book Ratio:	1.7x		
ROE 2001E Average:	14.9%		
LT Liability % of Capital:	45.1%		
Est. 5 Year EPS Growth:	8.0%		

Next 5 Year Dividend Growth: 8.0%
Stock Data

52-Week Range: \$52.69-\$29.50
Symbol / Exchange: PNW / NYSE
Options: Pacific
Institutional Ownership-Vickers: 74.3%
Brokers Covering (First Call): 11

For full investment opinion definitions, see footnotes.

Earnings Review

First Quarter 2001 - Reported \$0.70 vs. \$0.64 per share; Operating \$0.73 vs. \$0.64 per share.

Adjustments: 2001 - \$0.03/share charge for change in accounting for derivatives (FAS 133).

12 Months Ended March 2001 - Reported \$3.62 vs. \$2.25 per share; Operating \$3.65 vs. \$3.45 per share.

Adjustments: 2001 - As above; 2000 - \$1.65/share Q3 1999 regulatory disallowance offset by \$0.45 Merabank tax credit.

Another Strong Quarter

PNW reported Q1 results earlier than expected to coincide with its analyst presentations last week. The result of \$0.73 was in line with expectations showing solid 9% growth over Q1 2000 which we described at the time as a "blow-out" quarter. The main driver was the electricity business which almost doubled (\$0.75 vs. \$0.39) to more than offset the absence of last year's one-time portfolio gains at El Dorado (\$0.01 vs. \$0.22). Arizona Public Service (APS) saw retail energy sales volume grow by 7.2% on customer growth of 3.8%. Meanwhile, wholesale power sales continued to grow strongly showing a 51% increase versus Q1 2000, above the 40% 12-month growth rate reached at year-end. In terms of profits, electricity EBITDA came in at \$265mn, up 26% versus \$210mn in Q1 2000. Fuel and purchased power costs increased sharply (\$516mn vs. \$125mn) but were more than offset by higher electricity revenues (\$906mn vs. \$446mn).

On the real estate side revenues dropped by 23% with net income also down sharply (\$0.01 vs. \$0.06) reflecting lumpy large parcel sales from 1Q 2000. Higher interest expenses shaved \$0.04 from earnings while increased capitalized interest was a \$0.08 boost reflecting the ramp-up in new generation investments.

CA: A Regulatory Opportunity?

On April 5, the Arizona Court of Appeals rejected the remaining consumer appeal against APS's 1999 Settlement Agreement. The group which filed the appeal has until May 7 to petition the state supreme court for review of the Court of Appeals' decision.

At their meeting, PNW indicated that they plan to take a new proposal to AZ regulators around the middle of this year. The proposal would involve accelerating (from 2002 into 2001) the transfer of assets to PWE, the non-regulated generation business. In return, PWE would commit some of this capacity back to the utility under long-term contracts. By doing this now, PNW clearly hopes to pre-empt upcoming (2002) political and regulatory changes and to reduce the likelihood of future backlash against current deregulation plans.

Considering current price volatility in western power markets, PNW's proposal may well look attractive to regulators concerned to protect AZ's enviable recent record of retail price reductions. This regulatory strategy seems prudent, particularly in view of management's cautious (and non-consensual) view that current pricing spikes in western power markets will ease sooner than generally expected.

2001/02 Summer Hedges In Place

PNW has hedged forward its summer peak requirements for both 2001 and 2002. Peak demand is projected around 6,000 MW this summer and is covered with a 14% reserve margin in all but 30-40 hours. As in summer 2000, short-term hedges coupled with long-term purchase contracts will leave PNW ample excess energy to sell into a tight wholesale market.

Generation Project Update

PNW's generation investment program remains on course with PWE planning to add up to 2,800 MW of new capacity between 2001 and 2006. The 120 MW West Phoenix plant upgrade begins testing this month and is expected to be in service by June. For 2002, the 1,060 MW Redhawk 1 & 2 project is expected to come on line between June and July. Thereafter, the remaining 530 MW upgrade of West Phoenix is scheduled for completion in June 2003.

Earnings and Stock Outlook

We are raising our 2001E to \$3.75 from \$3.60 and taking our 2002E up to \$4.15 from our initial estimate of \$3.85. With forward prices reflecting the tight Western market supply situation, we believe PNW's wholesale operations should continue to thrive while 2002 will see the first major contributions from the new generation expansion. Meanwhile, growth at the utility continues to be above average while the reg. asset amortization schedule calls for decreases both this year (\$8mn) and next (\$18mn).

PNW continues to have most of what we like in a utility: top tier (8-10%) EPS growth potential, a high growth franchise market, attractive generating assets that have been deregulated, and no return caps in its rate deal. While management has a less optimistic market view than consensus, it has a strong shareholder-oriented track record and is managing the business prudently with a long-term view. Our new price objective is \$55 at 13-14x our 2001E.

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